

# Schedule of Federal Audit Findings and Questioned Costs

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

### 1. The District's internal controls are inadequate to ensure compliance with federal procurement requirements.

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| <b>CFDA Number and Title:</b>              | 84.010 Title I Grants to Local Educational Agencies<br>84.027/173 Special Education Cluster<br>84.060 Indian Education Grants to Local Educational Agencies<br>84.391 ARRA - Special Education IDEA Part B (Recovery Act)<br>93.600 Headstart |
| <b>Federal Grantor Name:</b>               | U.S. Department of Health and Human Services  |
| <b>Federal Award/Contract Number:</b>      | S060A080393   |
| <b>Pass-through Entity Name:</b>           | Office of Superintendent of Public Instruction  |
| <b>Pass-through Award/Contract Number:</b> | NA  |
| <b>Questioned Cost Amount:</b>             | \$0   |

### Background

Federal regulations require grantees that use federal money to purchase goods and services follow their own procurement procedures as long as they are in compliance with state and local laws and regulations.

If no state and local laws and regulations address a particular type of procurement, entities are to follow federal law and standards in the Federal Office of Management and Budget Circular A-102 Grants Management Common Rule, which requires them to use a competitive process, such as obtaining quotations, when those goods or services do not cost more than \$100,000.

Grantees may solicit services from only one vendor when they determine awarding the contract is not feasible using bids or competitive proposals, and the goods and services are available from a single source, or competition is determined to be inadequate. Moreover, grantees and subgrantees are to maintain records sufficient to detail the significant history of procurement.

In our 2004 and 2007 audits, we notified District management of these requirements, and in our audit of fiscal year 2008 we reported noncompliance with federal procurement requirements. These conditions have not been resolved.

## Description of Condition

We found that the District did not comply with federal procurement requirements as follows:

**Special Education:** We examined eight personal service contracts totaling \$1,172,328 charged to Special Education grants. The District could not provide documentation to show these contracts were competitively procured. District staff stated they considered the contracts sole source, but did not have documentation to show how the District reached that conclusion.

**Indian Education:** We examined two personal service contracts totaling \$14,603 charged to the Indian Education grant. The District could not provide documentation to show the contracts were competitively procured. District staff stated they considered the contracts sole source, but did not have documentation to show how the District reached that conclusion.

**Head Start:** We examined four personal service contracts totaling \$217,982 charged to the Head Start grant. The District could not provide documentation to show these contracts were competitively procured. District staff stated they considered the contracts sole source, but did not have documentation to show how the District reached that conclusion.

**Title I:** We examined six personal service contracts totaling \$175,998 charged to the Title I grant for private tutoring services. The District could not provide documentation showing these contracts were competitively procured. District staff stated they considered the contracts sole source, but did not have documentation to show how the District reached that conclusion.

## Cause of Condition

District staff was unaware of federal requirements related to procurement. The District also did not follow previous audit recommendations.

## Effect of Condition

By not complying with federal procurement requirements, the District cannot ensure contracts paid with federal funds are awarded to the lowest responsible bidder. By not retaining appropriate supporting documentation, the District cannot demonstrate other providers were unable to supply the necessary personal services before it selected vendors. Therefore, it is possible other providers were not provided an opportunity to compete for these contracts, which can affect contract price and quality of service.

## Recommendation

We recommend the District comply with federal requirements when procuring personal services, and maintain adequate records to support procurement of services, including justification for sole source procurements.

## **District's Response**

*The District concurs with this finding with regard to the fiscal year 2009. Due to lack of uniform purchasing requirements across the District, there were programs that did not have sufficient documentation for their sole source contracts. These contracts were still in effect during the time when the State Auditors documented a similar finding during FY 2008.*

*After the finding of the FY 2008 audit, the District has initiated uniform purchasing requirements that include justification for sole source contracts. The District now has uniform purchase requirements which require that Sole Source documentation of sole source contracts among other statutory and District requirements. This program took about a year to implement and although effective during the fiscal year 2009, the program became fully effective in FY 2010.*

## **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## **Applicable laws and Regulations**

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section .300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Circular A-102 *Grants Management Common Rule* is codified in different sections of the Code of Federal Regulations depending on the federal granting agency. The applicable sections for the procurement requirements for these grants are stated in part as follows:

Special Education: 34 CFR 80.36 – Department of Education

### **UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS (AND TRIBAL GOVERNMENTS)**

Requirements for procurement are contained in the A-102 Common Rule (§\_\_\_\_.36), portions of which are reproduced below:

(b) Procurement standards. (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . . (9) Grantees

and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price . . .

c) Competition. (1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 92.36 . . . (3) Grantees will have written selection procedures for procurement transactions . . .

(d) Methods of procurement to be followed.

(1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(3) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:

(i) Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals shall be honored to the maximum extent practical;

(ii) Proposals will be solicited from an adequate number of qualified sources;

(iii) Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees;

(iv) Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and

(v) Grantees and subgrantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

(4) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.

(i) Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

(A) The item is available only from a single source . . . .

# Schedule of Federal Audit Findings and Questioned Costs

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

### 2. The District does not have adequate internal controls to ensure compliance with eligibility requirements for its Indian Education program.

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| <b>CFDA Number and Title:</b>              | 84.060 Indian Education Grants to Local Educational Agencies |
| <b>Federal Grantor Name:</b>               | U.S. Department of Education                                 |
| <b>Federal Award/Contract Number:</b>      | S060A080393  |
| <b>Pass-through Entity Name:</b>           | NA   |
| <b>Pass-through Award/Contract Number:</b> | NA   |
| <b>Questioned Cost Amount:</b>             | \$153,703  |

#### Background

The Indian Education grant is designed to help schools address education and culturally related academic needs of Indian students in need of assistance with meeting state academic standards. Districts receive money based on the number of eligible students. District must have a signed eligibility form indicating the student is a member of an eligible tribe, and the student must be enrolled in the District during the period in which enrollment is counted. The District claimed 1,123 students on its 2008-2009 grant application and received \$233,792, or approximately \$206 per eligible student.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program activities.

#### Description of Condition

In a 2007 program audit, the Office of Indian Education, U.S. Department of Education, found the number of eligibility forms on file did not support the number of students counted for funding. In our current audit, we again found the District could not substantiate the number of students counted for funding. The District was able to provide 927 eligibility forms, 377 of which were found to be eligible for inclusion in the count. Common reasons for ineligibility included:

- The student was no longer enrolled.
- Duplicate eligibility forms for the student.
- The student was not a member of an eligible tribe.

We are questioning costs for students claimed for which the District could not provide enrollment records and eligibility forms. This represents 746 students, or \$153,703 in questioned costs.

### **Cause of Condition**

The District did not have a system to ensure ineligible students were not counted for funding purposes. The District did not retain sufficient documentation in accordance with program guidance to demonstrate compliance with eligibility requirements.

### **Effect of Condition and Questioned Costs**

The District risks continued noncompliance with grant requirements that could jeopardize future federal funding and require the District to return federal funds to the grantor. We are questioning costs for 746 students, or \$153,703.

### **Recommendation**

We recommend the District maintain records to support the number of students included on the grant application. Each student claimed should have a properly completed eligibility form and be enrolled in the District during the count period. We further recommend the District consult with the Office of Indian Education about repayment of questioned costs.

### **District's Response**

*The District concurs with the finding and recognizes the need to ensure that only eligible students are counted for funding purposes. Prior to this finding, the District initiated a review of its own management practices for the Indian Education program and found that there were ineligible students enrolled into the program. An internal audit review found that the District lacked sufficient documentation to support student eligibility.*

*Program management identified that student eligibility is at risk whenever students move out of the District. Enrollment documentation has not been previously updated in a timely manner resulting in continued enrollment for ineligible students. Program management identified ineligible students and reported the ineligible students to the State Auditor during the current year audit.*

*The District has committed to review and correct eligibility data; maintain sufficient eligibility documentation, review and refund questioned costs to the Department of Indian Education in a timely manner.*

### **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## Applicable laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, section 300 -- Auditee responsibilities.

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

The Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001, states:

### SEC. 7117. STUDENT ELIGIBILITY FORMS.

(a) IN GENERAL- The Secretary shall require that, as part of an application for a grant under this subpart, each applicant shall maintain a file, with respect to each Indian child for whom the local educational agency provides a free public education, that contains a form that sets forth information establishing the status of the child as an Indian child eligible for assistance under this subpart, and that otherwise meets the requirements of subsection (b).

(b) FORMS- The form described in subsection (a) shall include —

(1) either —

(A)(i) the name of the tribe or band of Indians (as defined in section 7151) with respect to which the child claims membership;

(ii) the enrollment number establishing the membership of the child (if readily available); and

(iii) the name and address of the organization that maintains updated and accurate membership data for such tribe or band of Indians; or

(B) the name, the enrollment number (if readily available), and the name and address of the organization responsible for maintaining updated and accurate membership data, of any parent or grandparent of the child from whom the child claims eligibility under this subpart, if the child is not a member of the tribe or band of Indians (as so defined);

(2) a statement of whether the tribe or band of Indians (as so defined), with respect to which the child, or parent or grandparent of the child, claims membership, is federally recognized;



(3) the name and address of the parent or legal guardian of the child;

(4) a signature of the parent or legal guardian of the child that verifies the accuracy of the information supplied; and

(5) any other information that the Secretary considers necessary to provide an accurate program profile . . .

(f) MONITORING AND EVALUATION REVIEW

2) FALSE INFORMATION- Any local educational agency that provides false information in an application for a grant under this subpart shall —

(A) be ineligible to apply for any other grant under this subpart; and

(B) be liable to the United States for any funds from the grant that have not been expended . . .

(h) TIMING OF CHILD COUNTS- For purposes of determining the number of children to be counted in calculating the amount of a local educational agency's grant under this subpart (other than in the case described in subsection (g)(1)), the local educational agency shall —

(1) establish a date on, or a period not longer than 31 consecutive days during, which the agency counts those children, if that date or period occurs before the deadline established by the Secretary for submitting an application under section 7114; and

(2) determine that each such child was enrolled, and receiving a free public education, in a school of the agency on that date or during that period, as the case may be.

# Schedule of Federal Audit Findings and Questioned Costs

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

3. **The District does not have adequate internal controls to ensure that the required parent committee is established for its Indian Education program.**

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| <b>CFDA Number and Title:</b>              | 84.060 Indian Education Grants to Local Educational Agencies |
| <b>Federal Grantor Name:</b>               | U.S. Department of Education                                 |
| <b>Federal Award/Contract Number:</b>      | S060A080393  |
| <b>Pass-through Entity Name:</b>           | NA   |
| <b>Pass-through Award/Contract Number:</b> | NA   |
| <b>Questioned Cost Amount:</b>             | \$0  |

### Background

The Indian Education grant is designed to help schools address education and culturally related academic needs of Indian students in need of assistance with meeting state academic standards.

In order to receive this money, Districts are required to develop specific programs with the participation and written approval of a committee composed of a majority of parents of Indian children in the District's schools, teachers, and a student in a secondary school. The committee must have at least six members, operate under District-approved bylaws and keep minutes of its meetings.

The District received \$233,792 through this program in 2008-2009.

### Description of Condition

In a 2007 program audit, the Office of Indian Education, U.S. Department of Education, found the District could not demonstrate that it had a parent committee, and recommended the District retain records documenting the Committee composition, bylaws, and meeting minutes. During our current audit, the District was unable to provide documentation to show it had this parent committee during the grant period.

### Cause of Condition

Subsequent to the program review, the District agreed to form a parent committee and establish bylaws. However, the District did not perform adequate monitoring to ensure that a committee or bylaws were formed.

## Effect of Condition

Without a Parent Committee, the District is not complying with grant requirements. Continued noncompliance could jeopardize future federal funding and require the District to return federal funds to the grantor.

## Recommendation

We recommend that the District establish a Parent Committee in accordance with program regulations and maintain sufficient records of Committee meetings to demonstrate compliance with grant requirements. We also recommend the District monitor the Parent Committee to ensure that the Committee fulfills its obligations under the grant agreement.

## District's Response

*The District concurs with the finding and recognizes the need to establish a Parent Committee in accordance with program regulations as well as maintain sufficient records of Committee meetings.*

*Earlier in the current fiscal year, the District initiated a review of the Indian Education management practices and found that there lacked a system to document evidence of Parental Involvement within the program. Parental involvement was informal and verbal.*

*The District has initiated a systems review to ensure that Parental Committee meetings are documented to demonstrate Parental Involvement. Changes include a commitment for a periodic review of Program administration to ensure that these requirements are followed.*

## Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## Applicable laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, Section 300 -- Auditee responsibilities, states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

*The Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001* states in part:

Section 1001 Statement of Purpose

The purpose of this title is to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education and reach, at a minimum, proficiency on challenging State academic achievement standards and state academic assessments. This purpose can be accomplished by . . .

(12) affording parents substantial and meaningful opportunities to participate in the education of their children.

Section 7114(c) ASSURANCES— Each application submitted under subsection (a) shall include assurances that . . .

(3) the program for which assistance is sought—

(A) is based on a comprehensive local assessment and prioritization of the unique educational and culturally related academic needs of the American Indian and Alaska Native students for whom the local educational agency is providing an education;

(B) will use the best available talents and resources, including individuals from the Indian community; and

(C) was developed by such agency in open consultation with parents of Indian children and teachers, and, if appropriate, Indian students from secondary schools, including through public hearings held by such agency to provide to the individuals described in this subparagraph a full opportunity to understand the program and to offer recommendations regarding the program; and

(4) the local educational agency developed the program with the participation and written approval of a committee—

(A) that is composed of, and selected by--

(i) parents of Indian children in the local educational agency's schools;

(ii) teachers in the schools; and

(iii) if appropriate, Indian students attending secondary schools of the agency;

(B) a majority of whose members are parents of Indian children;

(C) that has set forth such policies and procedures, including policies and procedures relating to the hiring of personnel, as will ensure that the program for which assistance is sought will be operated and evaluated in consultation with, and with the involvement of, parents of the children, and representatives of the area, to be served;  
(D) with respect to an application describing a schoolwide program in accordance with section 7115(c), that has—

(i) reviewed in a timely fashion the program; and

(ii) determined that the program will not diminish the availability of culturally related activities for American Indian and Alaska Native students; and

(E) that has adopted reasonable bylaws for the conduct of the activities of the committee and abides by such bylaws.

# Schedule of Federal Audit Findings and Questioned Costs

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

### 4. Seattle School District did not comply with federal requirements over its Safety Net funds.

|                                     |   |
|-------------------------------------|---|
| CFDA Number and Title:              | 84.027/173 Special Education Cluster<br>84.391 AARA - Special Education IDEA<br>Part B (Recovery Act) |
| Federal Grantor Name:               | U.S. Department of Education  |
| Federal Award/Contract Number:      | NA  |
| Pass-through Entity Name:           | Office of Superintendent of Public<br>Instruction   |
| Pass-through Award/Contract Number: | NA  |
| Questioned Cost Amount:             | \$21,610  |

#### Background

School districts may apply for Safety Net awards through the state Office of Superintendent of Public Instruction's (OSPI) Special Education Safety Net Committee to assist in paying special education costs when the cost of educating a special needs student exceeds available resources. These awards are made up of State and federal funding.

Districts apply for these awards mid-year, based on projections of expenditures and resources. Districts must comply with federal and state requirements for Individualized Education Plans (IEP) for special education students. IEPs are written programs that explain students' educational needs, goals, services to be provided and the cost of those services. Districts receive safety net funding specific to each student to be used in accordance with the IEP. Districts are to notify OSPI when these students withdraw from the District. OSPI may recover safety net money not used by a district.

The District received \$459,223 in Safety Net money in 2008-2009.

#### Description of Condition

Two students whose educational costs were paid with Safety Net money withdrew from the District. The District did not notify OSPI and retained the money.

#### Cause of Condition

The District believed OSPI automatically adjusted their subsequent grant award when special education students with high needs withdrew from the District. This resulted in

the District failing to comply with federal and state laws regarding the use of Safety Net funds.

### **Effect of Condition and Questioned Costs**

The Safety Net application process relies on the District to notify OSPI and return money when special education students withdraw from the District. Since the District did not properly notify OPSI, we are questioning costs of \$21,610 for two students.

### **Recommendation**

We recommend the District follow proper procedures for returning Safety Net funds and contact OSPI to determine the amount to be repaid, if any.

### **District's Response**

*The District concurs with this finding. During fiscal year 2009-2010, Seattle Public Schools submitted 82 student's IEPs for Safety Net reimbursement. Out of the 82 submitted 61 were approved for funding. Two students with IEP approved funding during fall of 2009 left the District. The District's Special Education State Count excluded the two students but the Safety Net Count did not. The District was not aware of continued funding based on the two students after their departure.*

*The District has contacted the State Safety Net Coordinator at OSPI for guidance on the appropriate process for addressing the issue of "student withdrawals and Safety Net Reimbursement" in the future and the district intends to follow the following procedures:*

- 1. Complete a monthly review for attendance/enrollment for all students receiving Safety Net reimbursement.*
- 2. Notify the District Safety Net Coordinator and OSPI with names of students who withdraw from the district.*

### **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

### **Applicable laws and Regulations**

Title 34, Code of Federal Regulations, Section 300.704, State-level activities, states in part:

(c)(3)(c)(B)

Establish eligibility criteria for the participation of an LEA that, at a minimum, take into account the number and percentage of high need children with disabilities served by an LEA;

(c)(3)(c)(D)

Establish criteria to ensure that placements supported by the fund are consistent with the requirements of Sec. Sec. 300.114 through 300.118;

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), states in part:

Appendix A, Section C(1) To be allowable under Federal awards, costs must meet the following general criteria:

(b) Be allocable to Federal awards under the provisions of this Circular.

(c) Be authorized or not prohibited under State or local laws or regulations.

(d) Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

(i) Be the net of all applicable credits.

Appendix A, Section C(4) Applicable credits.

1.a. Applicable credits refer to those receipts or reduction of expenditure type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are . . . adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

WAC 392-140-600

Special education safety net – Applicable provisions:

The provisions of WAC 392-140-600 through 392-140-685 apply to the determination of safety net allocations of state special education moneys and Individuals with Disabilities Education Act (IDEA) federal funds for the 2007-08 school year and thereafter.

WAC 392-140-605

Special education safety net – Application types, certification, worksheets: Application for safety net funding shall be made on Form SPI 1381 - Certification published by the superintendent of public instruction . . .

(1) . . . The school district making application for either or both categories of safety net funding shall certify that:



(a) The district recognizes that differences in costs attributable to district philosophy, service delivery choice, or accounting practice are not a legitimate basis for safety net awards.

(b) The application complies with the respective safety net application standards of WAC 392-140-616 and 392-140-617;

(c) The application provides true and complete information to the best of the school district's knowledge;

(d) The district understands that safety net funding is not an entitlement, is subject to adjustment and recovery, may not be available in future years, must be expended in program 21 or program 24 as specified in the award letter, and certifies that federal medicaid has been billed for all services to eligible students;

#### WAC 392-140-609

Special education safety net – Standards and criteria - Appropriate and properly and efficiently prepared and formulated IEPs: Individualized education programs (IEPs) which are appropriate, properly and efficiently prepared and formulated are those IEPs that meet all of the following criteria:

(1) The IEPs comply with federal and state procedural requirements.

(2) The delivery of specially designed instruction identified on the IEP also complies with state and federal requirements (i.e., regularly scheduled teaching or training activities provided or designed by special education qualified staff).

(3) The provision of special education services conforms with areas of need identified in the student's evaluation and/or reevaluation made pursuant to chapter 392-172A WAC.

#### WAC 392-140-616

Special education safety net – Standards – High need student applications

For districts requesting safety net funding to meet the extraordinary needs of an eligible high need special education student, the district shall convincingly demonstrate at a minimum that:

(1) The IEP for the eligible special education student is appropriate, and properly and efficiently prepared and formulated.

(2) All of the following criteria apply to the high need student:

(a) Costs eligible for safety net consideration must be associated with providing direct special education and related services identified in a properly formulated IEP.

(b) In order to deliver appropriate special education and related services to the student, the district must be providing services which incur costs exceeding:

(i) The annual threshold as established by the office of superintendent of public instruction for state funding; then

(ii) Three times the average per pupil expenditure (as defined in section 9101 of the Elementary and Secondary Education Act of 1965) for the state of Washington for federal funding . . .

(c) The total cost of educational services must exceed any carryover of federal flow-through special education funding as of August 31 of the prior school year.

(3) The state safety net oversight committee shall adapt the high need student application as appropriate for applications prepared by the Washington state school for the blind and the Washington school for the deaf.

#### WAC 392-140-660

Special education safety net – Approved application – Special education safety net allocations:

(1) The special education safety net allocation for an individual district shall be the smaller of:

(a) The amount requested by the school district; or

(b) The amount authorized by the state oversight committee.

(2) Special education safety net allocations for high need students under WAC 392-140-605(1) shall use appropriated federal and state moneys.

# Schedule of Federal Audit Findings and Questioned Costs

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

### 5. The Seattle School District paid a Title I paraprofessional who did not meet highly qualified requirements.

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|--|---|
| <b>CFDA Number and Title:</b>              | 84.010 Title I Grants to Local Educational Agencies |
| <b>Federal Grantor Name:</b>               | U.S. Department of Education                        |
| <b>Federal Award/Contract Number:</b>      | NA  |
| <b>Pass-through Entity Name:</b>           | Office of Superintendent of Public Instruction      |
| <b>Pass-through Award/Contract Number:</b> | NA  |
| <b>Questioned Cost Amount:</b>             | \$31,455  |

#### Background

The federal No Child Left Behind Act requires school districts to ensure any paraprofessional who is hired by the school district after January 8, 2002 and who works in a program supported with Title I, Part A funds meets specific qualification requirements. Paraprofessionals who work in a program supported with Title I, Part A funds and who were hired by a school district prior to January 8, 2002, must have met these requirements by the end of the 2005-2006 school year.

Seattle School District spent \$13,390,542 in Title I money in 2008-09. The Title I grant objective is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families. Title I program guidelines include requirements that the District submit accurate Highly Qualified Teacher and Paraprofessional information to Office of Superintendent of Public Instruction and that all teachers and paraprofessionals are highly qualified by August 31, 2007.

#### Description of Condition

In our audit, we found that the District had one paraprofessional who did not meet the highly qualified requirements. This staff member was detected and reported by the District to the Office of Superintendent of Public Instruction (OSPI) in the Highly Qualified Teacher and Paraprofessional Report submitted to OSPI.

We determined that the staff member earned approximately \$31,455 in the 2008-09 school year. We also determined that the District had 73 teachers who did not meet Highly Qualified Teacher (HQT) requirements. However, none of these teachers taught Title I classes.

## **Cause of Condition**

District staff was aware of the requirement. The District thought this staff member was providing services unrelated to Title I.

## **Effect of Condition and Questioned Costs**

We are questioning costs of \$31,455. The questioned costs represent the amount of payroll costs charged to Title I for the instructional assistant who was known to not meet highly qualified requirements.

## **Recommendation**

We recommend that District officials monitor staff levels to ensure it complies with highly qualified paraprofessional requirements.

## **District's Response**

*The district ensures that all teachers and instructional assistants who work in Title I schools have earned the Highly Qualified Teacher (HQT) designation. To meet this objective, the Human Resource department at Seattle Public School District has put in place procedures to prevent and detect instances where less than HQT perform instructional duties within Title I schools. This process involves a periodic review and a correcting process to ensure that only HQT's provide instruction within Title I schools.*

*During the summer of 2009, a Highly Qualified Teacher resigned. As a result of the resignation, the District unintentionally staffed the position temporarily with an instructional assistant (IA). Shortly after the staffing, the District realized this during its review process and reported to the OSPI about the error. Subsequent to an internal review of teachers and IAs with HQT designations, the District reported an exception on May 28th, 2009. The IA was removed from the Title I school and required to complete the State test, Praxis, which would help complete the HQT requirement. Since then, the IA has completed the requirement. We continue to monitor staff qualifications to ensure compliance with HQT requirements through periodic reviews within the Human Resources department.*

## **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## **Applicable laws and Regulations**

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, section 300 -- Auditee responsibilities for paraprofessionals, states:

Qualifications of paraprofessionals.

- a. An LEA must ensure that each paraprofessional who is hired by the LEA after January 8, 2002 and who works in a program supported with

Title I, Part A funds meets specific qualification requirements. Paraprofessionals who work in a program supported with Title I, Part A funds and who were hired by an LEA prior to January 8, 2002, had to meet these requirements by the end of the 2005-2006 school year. The term “paraprofessional” means an individual who provides instructional support; it does not include individuals who have only non-instructional duties (such as providing technical support for computers, providing personal care services, or performing clerical duties). A paraprofessional works in a program supported with Title I, Part A funds if the paraprofessional is paid with Title I, Part A funds in a Title I targeted assistance school or works as a paraprofessional in a schoolwide program school.

b. A paraprofessional must hold a high-school diploma or its recognized equivalent and meet one of the following requirements:

(1) Have completed at least two years of study at an institution of higher education.

(2) Have obtained an associate’s or higher degree.

(3) Have met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, reading/language arts, writing, and mathematics, or reading readiness, writing readiness, and mathematics readiness.

c. A paraprofessional who is proficient in English and a language other than English and acts as a translator or who has duties that consist solely of conducting parental involvement activities need only have a high-school diploma or its recognized equivalent.

# Schedule of Federal Audit Findings and Questioned Costs

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

### 6. The Seattle School District's internal controls for billing payroll costs to the State Fiscal Stabilization Fund (Recovery Act) program are inadequate.

|  |   |
|--|---|
| <b>CFDA Number and Title:</b>              | 84.394 ARRA - State Fiscal Stabilization Fund – Education State Grants (Recovery Act) |
| <b>Federal Grantor Name:</b>               | U.S. Department of Education  |
| <b>Federal Award/Contract Number:</b>      | NA  |
| <b>Pass-through Entity Name:</b>           | Office of Superintendent of Public Instruction  |
| <b>Pass-through Award/Contract Number:</b> | GR0995089   |
| <b>Questioned Cost Amount:</b>             | \$8,080 currently identified (total unknown)  |

#### Background

The State Fiscal Stabilization Fund program, funded by the American Recovery and Reinvestment Act, is designed to augment funding for elementary, secondary and postsecondary, and early childhood education programs at the state and local level. The District received a one-time appropriation of approximately \$19.8 million in 2009. Of that, \$12.5 million was spent on salaries and \$4.1 million was spent on benefits.

The District uses a payroll system it installed in 2008 to process these payments.

#### Description of Condition

Our audit identified significant deficiencies in controls over payroll processing that prevented the District from detecting overpayments to employees whose salaries were funded by the program. In addition, the deficiencies do not allow us to determine the total number of employees who were overpaid. Therefore, we are unable to ascertain the total unallowable and questioned costs.

#### Cause of Condition

When it switched to the new system, District staff members manually entered employee pay codes into the new system. No one did a review to ensure they were correct. Therefore, the District's controls were insufficient to detect and correct errors in a timely manner.

## Effect of Condition and Questioned Costs

We identified one employee who was overpaid \$40,402. The amount of the overpayment charged to the State Fiscal Stabilization Fund was \$8,080. The overpayment is unallowed and we are questioning these costs. Based on the internal control weaknesses identified and information provided by the District, not all employees who were overpaid have been identified. Therefore, we cannot determine the entire amount the District may have overpaid with Recovery Act funds.

This issue was reported as a significant deficiency in the District's financial statement audit report in accordance with *Government Auditing Standards*, prescribed by the Comptroller General of the United States.

We will issue a Special Report later this year outlining all of the issues associated with the District's salary overpayments.

## Recommendation

We recommend the District establish and follow controls to prevent payroll data entry errors. We also recommend these controls be designed to detect and correct employee overpayments in a timely manner.

We further recommend that the District identify all overpayments paid with the State Fiscal Stabilization Fund program and contact the Office of the Superintendent of Public Instruction to resolve the questioned costs.

## District's Response

*The District concurs with the State Auditors findings as noted. The next steps in the process will include analysis and review of payroll data to detect potential payment errors. The District will document instances of overpayments.*

*As per District analysis for payments made during fiscal year 2009 with the State Fiscal Stabilization Fund Program, the District noted one instance of overpayment. The District will contact the Office of the Superintendent of Public Instruction and resolve any questioned costs.*

## Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## Applicable laws and Regulations

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, states in part: Section .300(b)

The auditee shall

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal

awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), states:

Appendix A, C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria . . .

b.) Be allocable to Federal awards under the provisions of this Circular.2 CFR part 225 . . .

d.) Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.



# Schedule of Audit Findings and Responses

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

7. **The Seattle School District's internal controls over financial statement preparation, payroll processing and accounting for expenditures are inadequate.**

### Background

District management, the state Legislature, state and federal agencies and bondholders rely on the information in financial statements and reports to make decisions. District management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified significant deficiencies in controls that adversely affect the District's ability to produce reliable financial statements. *Government Auditing Standards*, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies, as defined below in the Applicable Laws and Regulations section, as a finding.

### Description of Condition

#### Financial statement preparation

District staff members did not have adequate knowledge of and experience with prescribed financial reporting requirements. Staff did not use the Accounting Manual for Public School Districts in the State of Washington for guidance and information related to capital asset transactions, and recorded them incorrectly.

Our review of the District's internal controls again noted no one independent of financial statement and associated note disclosures reviewed them for accuracy. We reported this condition in our last audit.

#### Payroll processing

In fiscal year 2009, the District processed more than \$330 million in payroll. We noted that when District changed its payroll system in 2008, it did not update its internal controls to address the increased risks of error or inappropriate entries related to manual data entry. Therefore, the District's controls over this payroll information are insufficient to detect and correct errors in a timely manner.

## **Cause of Condition**

### **Financial statement preparation**

District management is responsible for ensuring annual financial reports are accurate, complete, and comply with reporting requirements. However, the District relies on our audit to identify errors in the financial statements and notes, rather than dedicating the necessary staff time, training and other resources to ensure annual financial reports are accurate and complete.

### **Payroll Processing**

During the payroll system conversion, District staff members manually entered employee pay codes into the new system. No one reviewed these to ensure individual pay rates were the rates shown in the signed employee contracts.

## **Effect of Condition**

### **Financial statement preparation**

The District's financial statements contained errors that were not detected by District personnel. We found the District misclassified expenditures and misreported the following:

- Capital outlays of \$811,405 related to buildings were reported as "equipment" on the financial statements. This was a misclassification error.
- General Fund salaries and benefits of \$674,169 were incorrectly reported in the Capital Projects Fund.
- Accounts payable of \$1.6 million belonging to construction payments were reported in the General Fund, instead of the Capital Projects Fund. This overstated General Fund liabilities and understated Capital Projects Fund liabilities.
- The District reported its Private Purpose Trust Fund Balance of \$2.1 million as unreserved and undesignated. However, the principal balance of the account is restricted by the trust agreement and cannot be spent, so it must be reported as "Reserved for Trust Principal". Therefore, this overstated the District's total unreserved, undesignated fund balance, which represents unrestricted money available for expenditure.

In addition we noted the following errors in the notes to the financial statements:

- The Notes to the Financial Statements contained inaccurate information, missing disclosures, and terminology inconsistent with the Accounting Manual.

The District did not correct these errors and omissions in the final financial statements. As a result, financial statement users do not have accurate information to evaluate and understand the financial position of the District.

## **Payroll processing**

At least 150 employees were paid at a higher placement on the pay scale than their contracts supported. Thus far, a total of \$335,000 has been identified as overpaid. This is the result of a systemic issue. Based on the internal control weaknesses identified and the fact that we did not test the payroll records for each of the District's approximately 8,500 employees, we could not identify the total number of employees who were overpaid for this report.

Our Office will issue a Special Report later this year outlining all issues associated with the salary overpayments. In addition, we are issuing a Single Audit finding in this report to address overpayments paid with American Recovery and Reinvestment Act money.

## **Recommendation**

We recommend the District ensure employees responsible for financial accounting are adequately trained in accounting for and reporting District financial information in accordance with the Accounting Manual.

We also recommend the District establish policies and procedures governing the preparation and review of financial statements and note disclosures to prevent or detect and correct errors and omissions.

We further recommend the District improve controls over preventing payroll data entry errors and detecting and correcting employee overpayments in a timely manner.

## **District's Response**

*We concur with the findings and we believe the recommendations provide a starting point for a remediation plan to ensure adequate internal controls over financial statement preparation. Current financial controls focus on proper payments to vendors and employees and we believe that our next steps include establishing procedures that ensure that account balances are correctly presented within the context of financial statements.*

## **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## **Applicable Laws and Regulations**

*Government Auditing Standards*, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

- a. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a

material weakness, yet important enough to merit attention by those charged with governance.

b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Chapter 9, Section 7 of the *Accounting Manual for Public School Districts in the State of Washington*, issued by the Superintendent of Public Instruction and the State Auditor's Office, states in part:

#### Capital Outlay Expenditures

Capital outlay expenditures are those which result in the acquisition of capital assets or additions to capital assets. They include capital expenditures for land or existing buildings, improvements to grounds, construction of buildings, additions to buildings, remodeling of buildings, and purchase or installment of initial or additional major items of equipment. Include expenditures for facilities to house students during the construction or remodeling of a school building. Legal fees for capital projects are chargeable to the Capital Projects Fund. Election costs may be charged to the Capital Projects Fund upon passage of the levy. Election costs for failed levies are charged to the General Fund but may be reimbursed by the Capital Projects Fund if the levy passes at a later time provided it is within the same fiscal period.

#### Salaries

The salaries and other direct expenditures of school district employees who are hired or assigned to the planning or construction management of capital projects, which have been approved as provided above, are recorded under the Capital Projects Fund.

Capital projects' planning includes the development of facility specifications and construction design. It is defined as preparing specifications for building projects or preparing architectural blueprints or other design specifications by planning directors, architects, engineers, or draftsmen who spend significant time performing these duties. Salaries for capital project planning are not to be charged to the Capital Projects Fund for a specific project after the facility specifications or the construction design planning has been completed. Planning for the operation of existing facilities is not to be charged to the Capital Projects Fund.

Construction management, as it pertains to capital projects, is defined as directing, managing, or inspecting one or more capital projects. Salaries of staff project directors, inspectors, or monitors who spend significant time performing these services are designated as construction management salaries. Salaries for construction management shall not be

charged to the Capital Projects Fund after the building is occupied and accepted by school district board action.

The salaries of individuals who spend time performing duties that directly support capital project planning or construction management are to be charged directly to the Capital Projects Fund. Salaries of individuals engaged in the operations of the school district are not to be charged to the Capital Projects Fund. However, costs for staff paid to move their classroom/office as a direct result of a remodel or construction may be charged to the Capital Projects Fund. Salaries of individuals who also perform duties chargeable to another fund should be allocated in proportion to their duties to both the Capital Projects Fund and the other fund. Capital Projects Fund salaries may be processed through the General Fund, which is then reimbursed by the Capital Projects Fund.

Real estate management salaries are not to be charged to the Capital Projects Fund.

# Schedule of Prior Federal Audit Findings

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Seattle School District No. 1. The State Auditor's Office has reviewed the status as presented by the District.

|  |  |  |  |
|--|--|--|--|
| <b>Audit Period:</b><br>2008   | <b>Report Reference No:</b><br>1001794 | <b>Finding Reference No:</b><br>1  | <b>CFDA Number(s):</b><br>47.076, 84.010,<br>84.186 and 93.600 |
| <b>Federal Program Name and Granting Agency:</b><br>Education and Human Resources – National Science Foundation; Head Start – U.S. Department of Health and Human Services; Safe and Drug-Free Schools and Communities: State Grants and Title I Grants to Local Educational Agencies – U.S. Department of Education   |  | <b>Pass-Through Agency Name:</b><br>Office of Superintendent of Public Instruction<br>Institute of Systems Biology<br>Seattle Pacific University |  |
| <b>Finding Caption:</b><br>The District does not have internal controls to ensure compliance with federal procurement requirements.  |  |  |  |
| <b>Background:</b><br>Federal regulations require grantees that use federal money to purchase goods and services follow their own procurement procedures as long as they are in compliance with state and local laws and regulations. If no state and local laws and regulations address a particular type of procurement, entities are to follow federal law and standards in the Federal Office of Management and Budget Circular A-102 Grants Management Common Rule, which requires them to use a competitive process, such as obtaining quotations, when those goods or services do not cost more than \$100,000. Grantees may solicit services from only one vendor when they determine awarding the contract is not feasible using bids or competitive proposals, and the goods and services are available from a single source, or competition is determined to be inadequate. Moreover, grantees and subgrantees are to maintain records sufficient to detail the significant history of procurement.<br><br>In our 2004 audit, we notified District management of these requirements, and in the 2007 audit we reported noncompliance with federal procurement requirements to District management. These conditions have not been resolved. |  |  |  |
| <b>Status of Corrective Action: (check one)</b><br><input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid   |  |  |  |
| <b>Corrective Action Taken:</b><br>1. <i>Procurement rules were reviewed and revised based on this finding. The district distributed revised guidance regarding the responsibilities for review, approval and execution of contracts and other agreements and sole source justification. These documents were revised to reflect the requirements for federally funded procurements.</i>   |  |  |  |

*Copies of this memorandum and the referenced forms are attached.*

2. *Training in the area of grant compliance and Federal Regulations has been implemented. Training was provided for Managers and Supervisors on September 15, 2009 and a follow-up meeting was held on November 4, 2009. The content of the meetings included the new Grant Guidelines and process for managers, principals, teachers and other district staff. There were also documents given to managers that contained information about budget analyst assignments, grant guidelines, intent to apply form, and the revised PSC Procedures*
3. *At the district's request, OSPI is providing training to program managers federal programs in the following areas:*
  - *OMB Circular A-87—Allowable Costs (Codified as 2 CFR 225)*
  - *OMB Circular A-133—Audit Requirements and the related Compliance Supplement*
  - *OMB Circular A-102—Grants and Cooperative Agreements with State and Local Governments*
  - *34 CFR 80—Administrative Requirements*
  - *34 CFR 76—Requirements for grants passed to districts through the state agency, OSPI*

*This training will occur in January, 2010.*

|   |   |  |  |
|---|---|--|--|
| <b>Audit Period:</b><br>2008  | <b>Report Reference No:</b><br>1001794                  | <b>Finding Reference No:</b><br>2  | <b>CFDA Number(s):</b><br>84.010                               |
| <b>Federal Program Name and Granting Agency:</b><br>Title I Grants to Local Educational Agencies<br>– U.S. Department of Education  |   | <b>Pass-Through Agency Name:</b><br>Office of Superintendent of Public Instruction |  |
| <b>Finding Caption:</b><br>The Seattle School District does not have adequate internal controls to ensure accuracy of Highly Qualified Teacher (HQT) data.  |   |  |  |
| <b>Background:</b><br>The federal No Child Left Behind Act requires school districts to ensure any teacher hired after the first day of the 2002-03 school year to teach a core academic subject and who works in a program supported with Title I money is highly qualified as defined by federal regulations.<br><br>Seattle School District spent \$13,596,992 in Title I money in 2007-2008. The Title I grant objective is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families. Title I program guidelines include requirements that the District submit accurate Highly Qualified Teacher reporting information to Office of Superintendent of Public Instruction and that all teachers and paraprofessionals are highly qualified by August 31, 2007. |   |  |  |
| <b>Status of Corrective Action: (check one)</b>   |   |  |  |
| <input type="checkbox"/> Fully Corrected  | <input checked="" type="checkbox"/> Partially Corrected | <input type="checkbox"/> No Corrective Action Taken                                | <input type="checkbox"/> Finding is considered no longer valid |

**Corrective Action Taken:**

- *District staff has been made aware of the requirement to retain records to demonstrate compliance with Highly Qualified (HQ) requirements. As of Spring 2009, HQ records are compiled and maintained in Human Resources Department.*
- *As of spring 2009, Human Resources (HR) has lead responsibility for SPS's oversight of Highly Qualified (HQ) requirements. Staff in Titles I and II departments provides assistance to HR as needed.*
- *As of spring 2009, HR conducted a thorough review of all district staff to determine HQ status for every teacher and instructional assistant (IA). For all non-HQ staff, HR worked with them and their principals to develop HQ Plans. As of Fall 2009, many of those staff have completed the actions in their HQ Plans, and others continue to work on their corrective actions.*
- *In October and November 2009, HR has conducted another thorough review, and is overseeing the same process as in spring 2009. There appear to be far fewer non-HQ staff at this point.*
- *As of Fall 2009, all IAs providing instruction in our Title I schools are HQ.*
- *As of Fall 2009, all but two teachers in our Title I schools are HQ. HR is working with those two to confirm HQ Plans and to have the plans accomplished before second semester begins (2/1/10).*
- *HR is working with Technology Services to improve the HQ reporting capacity of our technology infrastructure, thus increasing efficiency with the HQ process.*
- *Starting in spring 2009 and still continuing, SPS administration has been working with principals and teachers to understand HQ requirements, so that they staff their schools and make teaching assignments appropriately per each employee's HQ status.*

|  |  |  |                                  |
|--|--|--|----------------------------------|
| <b>Audit Period:</b><br>2008   | <b>Report Reference No:</b><br>1001794 | <b>Finding Reference No:</b><br>3  | <b>CFDA Number(s):</b><br>84.010 |
| <b>Federal Program Name and Granting Agency:</b><br>Title I Grants to Local Educational Agencies<br>– U.S. Department of Education   |  | <b>Pass-Through Agency Name:</b><br>Office of Superintendent of Public Instruction |                                  |
| <b>Finding Caption:</b><br>Seattle School District does not have adequate internal controls to ensure private schools may receive Title I services in an equitable manner  |  |  |                                  |
| <b>Background:</b><br>Seattle School District spent \$13,596,992 in federal Title I money in fiscal year 2008. Title I money is to be used to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families. The grant requires that the District, after consultation with private school officials, provide equitable services to eligible private school children and their teachers and families. |  |  |                                  |



**Status of Corrective Action: (check one)**☒ Fully  
Corrected☐ Partially  
Corrected☐ No Corrective Action  
Taken☐ Finding is considered no  
longer valid**Corrective Action Taken:**

*Training in the area of grant compliance and Federal Regulations has been implemented. Training was provided for Managers and Supervisors on September 15, 2009 and a follow-up meeting was held on November 4, 2009. The content of the meetings included the new Grant Guidelines and process for managers, principals, teachers and other district staff. The intent of this training is to help managers and supervisors to provide equitable services to eligible private school children, their teachers and families.*

# Status of Prior Audit Findings

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

The status of findings contained in the prior years' audit reports of Seattle School District No. 1 is provided below:

**1. The Seattle School District's internal controls over financial statement preparation and payroll processing are inadequate.**

Report No. 1001794, dated July 20, 2009

### **Background**

District management, the state Legislature, state and federal agencies and bondholders rely on the information in financial statements and reports to make decisions. District management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified significant deficiencies in controls that adversely affect the District's ability to produce reliable financial statements. *Government Auditing Standards*, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies as a finding.

### **Status**

#### **Financial Reporting**

We noted the District has not taken action to ensure staff is adequately trained in accounting and reporting District financial information in accordance with the Accounting Manual for Public School Districts in the State of Washington. In addition, the District did not develop policies and procedures governing the preparation and review of financial statements and note disclosures that would detect and correct errors and omissions timely.

We will issue a finding over financial reporting during the current audit. We will also review the status of the finding during the next audit.

#### **Payroll Processing**

The District has partially corrected internal control weaknesses noted in this finding.

The payroll processing and the Human resource department have been segregated to prevent instances where data integrity is compromised. The payroll processing department has trained staff that prepares payroll information and reconciles payroll data to accounting data.

We will issue a finding over payroll processing during the current audit. We will also review the status of the finding during the next audit.